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**COMMUNITY SOLUTIONS INTERNATIONAL, INC.
AND SUBSIDIARIES
D/B/A COMMUNITY SOLUTIONS, INC.**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

CONTENTS

Independent Auditors' Report	1-2
Consolidated Statements of Financial Position - December 31, 2017 and 2016	3
Consolidated Statements of Activities for the Years Ended December 31, 2017 and 2016	4
Consolidated Statements of Functional Expenses for the Years Ended December 31, 2017 and 2016	5-6
Consolidated Statements of Cash Flows for the Years Ended December 31, 2017 and 2016	7
Notes to Consolidated Financial Statements	8-18

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Independent Auditors' Report

To the Board of Directors
Community Solutions International, Inc. and Subsidiaries
d/b/a Community Solutions, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Community Solutions International, Inc. and Subsidiaries, d/b/a Community Solutions, Inc. (the Organization), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated August 8, 2018 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
August 8, 2018

**COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES
D/B/A COMMUNITY SOLUTIONS, INC.**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 2,368,426	\$ 3,500,713
Restricted cash	8,651	4,169,118
Contributions receivable, net	3,377,047	2,767,559
Grants receivable	506,236	103,506
Other receivables, net	918,769	938,029
Note receivable - Northeast Neighborhood Partners Inc. (NNPI)	-	370,000
Loans receivable - related party	9,770,000	-
Replacement reserve	74,580	74,580
Operating reserve	99,368	99,368
Other assets	258,715	143,362
Due from NNPI	403,211	471,842
Due from Made in Brownsville	-	48,646
Property and equipment, net	<u>4,300,999</u>	<u>6,417,487</u>
Total Assets	<u>\$ 22,086,002</u>	<u>\$ 19,104,210</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 532,294	\$ 885,855
Due to North Capitol Commons LP	-	1,065,269
Deferred grant revenue	9,000	81,539
Line of credit, net	321,250	-
Loans payable, net	<u>1,072,000</u>	<u>2,053,021</u>
Total liabilities	<u>1,934,544</u>	<u>4,085,684</u>
Net Assets		
Unrestricted net assets	14,880,967	5,633,673
Temporarily restricted net assets	<u>5,270,491</u>	<u>9,384,853</u>
Total net assets	<u>20,151,458</u>	<u>15,018,526</u>
Total Liabilities and Net Assets	<u>\$ 22,086,002</u>	<u>\$ 19,104,210</u>

The accompanying notes are an integral part of the consolidated financial statements

**COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES
D/B/A COMMUNITY SOLUTIONS, INC.**

**CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Changes in Unrestricted Net Assets		
Support and revenue:		
Governmental grants	\$ 6,718,079	\$ 1,033,826
Contributions	929,703	814,487
Consulting income	689,031	1,170,688
Development and management fees	597,361	431,350
Rental income	205,848	206,930
Other income	67,825	77,021
Program income	-	15,128
Net assets released from restrictions	<u>9,099,173</u>	<u>5,527,836</u>
Total unrestricted support and revenue	<u>18,307,020</u>	<u>9,277,266</u>
Expenses:		
Program services:		
Built For Zero	3,400,080	4,317,251
Inspiring Places	1,210,794	1,045,897
Brownsville Partnership	647,150	834,690
Hartford Community Partnership	438,989	465,489
Real estate projects	1,326,782	642,224
Fiscal sponsorships	<u>269,558</u>	<u>124,250</u>
Total program services	7,293,353	7,429,801
Management and general	691,826	1,095,545
Fundraising	<u>514,867</u>	<u>549,832</u>
Total expenses	<u>8,500,046</u>	<u>9,075,178</u>
Increase in unrestricted net assets	<u>9,806,974</u>	<u>202,088</u>
Changes in Temporarily Restricted Net Assets		
Contributions	4,984,811	4,359,124
Net assets released from restrictions	<u>(9,099,173)</u>	<u>(5,527,836)</u>
Decrease in temporarily restricted net assets	<u>(4,114,362)</u>	<u>(1,168,712)</u>
Change in Net Assets before Loss on Transfer of Property	5,692,612	(966,624)
Loss on Transfer of Property	<u>(559,680)</u>	<u>-</u>
Change in Net Assets	5,132,932	(966,624)
Net Assets - Beginning of Year	<u>15,018,526</u>	<u>15,985,150</u>
Net Assets - End of Year	<u>\$ 20,151,458</u>	<u>\$ 15,018,526</u>

The accompanying notes are an integral part of the consolidated financial statements

**COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES
D/B/A COMMUNITY SOLUTIONS, INC.**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Program Services							Support Services			Grand Total
	Built For Zero	Inspiring Places	Brownsville Partnership	Hartford Community Partnership	Real Estate Projects	Fiscal Sponsor- ships	Total	Management and General	Fund- raising	Total	
Personnel services	\$ 2,861,643	\$ 808,035	\$ 568,371	\$ 298,103	\$ 95,997	\$ 1,926	\$ 4,634,075	\$ 185,858	\$ 258,789	\$ 444,647	\$ 5,078,722
Professional services	39,572	324,311	4,419	123,096	699,996	147,848	1,339,242	250,183	35,929	286,112	1,625,354
Occupancy	25,669	-	4,293	8,781	49,302	34,570	122,615	83,148	168,819	251,967	374,582
Travel and conference	255,632	26,702	2,425	-	-	12,564	297,323	62,955	-	62,955	360,278
Program expenses	159,552	28,309	32,837	2,005	632	5,753	229,088	-	-	-	229,088
Building management	-	-	-	-	140,814	-	140,814	-	-	-	140,814
Communication	31,552	5,424	18,945	5,554	5,751	6,599	73,825	21,762	14,624	36,386	110,211
Insurance	-	-	-	-	42,718	3,868	46,586	22,806	27,472	50,278	96,864
Office supplies and expenses	2,199	945	5,119	780	5,101	1,963	16,107	13,608	1,267	14,875	30,982
Printing and postage	6,632	137	260	-	480	2,734	10,243	19,356	-	19,356	29,599
Equipment purchases and rental	2,278	2,791	6,651	-	1,167	468	13,355	5,813	4,646	10,459	23,814
Real estate tax	-	-	-	-	13,008	-	13,008	-	-	-	13,008
Staff training and development	151	3,795	-	-	-	50	3,996	2,306	2,777	5,083	9,079
Advertising and marketing	2,322	339	310	167	-	1,526	4,664	452	544	996	5,660
Depreciation	-	-	-	-	127,408	-	127,408	2,960	-	2,960	130,368
Miscellaneous expenses	12,878	10,006	3,520	503	144,408	49,689	221,004	20,619	-	20,619	241,623
Total	\$ 3,400,080	\$ 1,210,794	\$ 647,150	\$ 438,989	\$ 1,326,782	\$ 269,558	\$ 7,293,353	\$ 691,826	\$ 514,867	\$ 1,206,693	\$ 8,500,046

The accompanying notes are an integral part of the consolidated financial statements

**COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES
D/B/A COMMUNITY SOLUTIONS, INC.**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Program Services							Support Services			Grand Total
	Built for Zero	Inspiring Places	Brownsville Partnership	Hartford		Fiscal Sponsorships	Total	Management and General	Fund-raising	Total	
				Community Partnership	Real Estate Projects						
Personnel services	\$ 3,199,272	\$ 590,941	\$ 704,580	\$ 346,121	\$ 130,860	\$ -	\$ 4,971,774	\$ 501,095	\$ 327,850	\$ 828,945	\$ 5,800,719
Professional services	453,929	239,637	72,908	78,471	115,349	77,544	1,037,838	260,218	54,712	314,930	1,352,768
Occupancy	25,271	-	11,262	12,930	83,386	3,840	136,689	136,844	126,238	263,082	399,771
Travel and conference	300,835	1,587	988	2,892	701	9,098	316,101	39,200	-	39,200	355,301
Subcontract expenses	69,453	180,000	-	-	-	-	249,453	-	-	-	249,453
Program expenses	136,484	25,116	11,259	15,378	961	2,242	191,440	-	-	-	191,440
Building management	-	-	-	-	142,760	-	142,760	-	-	-	142,760
Communication	26,708	3,986	12,421	4,492	3,868	7,428	58,903	51,728	11,991	63,719	122,622
Insurance	-	-	-	-	29,820	-	29,820	26,163	17,117	43,280	73,100
Office supplies and expenses	3,217	251	5,296	2,426	2,110	19,082	32,382	17,414	2,304	19,718	52,100
Printing and postage	3,183	335	815	-	448	969	5,750	20,430	-	20,430	26,180
Equipment purchases and rental	3,064	1,189	8,456	2,779	450	3,901	19,839	10,073	3,997	14,070	33,909
Staff training and development	30,079	2,600	924	-	1,015	-	34,618	6,824	4,465	11,289	45,907
Advertising and marketing	65,705	-	1,127	-	-	46	66,878	1,770	1,158	2,928	69,806
Depreciation	-	-	-	-	123,479	-	123,479	2,960	-	2,960	126,439
Miscellaneous expenses	51	255	4,654	-	7,017	100	12,077	20,826	-	20,826	32,903
Total	<u>\$ 4,317,251</u>	<u>\$ 1,045,897</u>	<u>\$ 834,690</u>	<u>\$ 465,489</u>	<u>\$ 642,224</u>	<u>\$ 124,250</u>	<u>\$ 7,429,801</u>	<u>\$ 1,095,545</u>	<u>\$ 549,832</u>	<u>\$ 1,645,377</u>	<u>\$ 9,075,178</u>

The accompanying notes are an integral part of the consolidated financial statements

**COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES
D/B/A COMMUNITY SOLUTIONS, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 5,132,932	\$ (966,624)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	136,118	126,439
Loss on transfer of property	559,680	-
(Increase) decrease in operating assets:		
Contributions receivable, net	(609,488)	2,817,140
Grants receivable	(402,730)	243,758
Other receivables	19,260	(275,019)
Note receivable - Northeast Neighborhood Partners Inc. (NNPI)	370,000	5,000
Other assets	(115,353)	(31,429)
Due from NNPI	(56,369)	(43,909)
Due from North Capitol Commons LP	-	444,900
Due from Made in Brownsville	48,646	(35,970)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(353,561)	346,958
Due to North Capitol Commons LP	(1,065,269)	1,065,269
Deferred grant revenue	(72,539)	(68,829)
Net cash provided by operating activities	<u>3,591,327</u>	<u>3,627,684</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(12,941)	(301,340)
Issuance of loans receivable - related party	(9,770,000)	-
Net cash used in investing activities	<u>(9,782,941)</u>	<u>(301,340)</u>
Cash Flows from Financing Activities		
Proceeds from line of credit	325,000	-
Proceeds from loans payable	702,860	55,613
Repayments on loans payable	(129,000)	(136,352)
Net cash provided by (used in) financing activities	<u>898,860</u>	<u>(80,739)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(5,292,754)	3,245,605
Cash and Cash Equivalents - Beginning of Year	<u>7,669,831</u>	<u>4,424,226</u>
Cash and Cash Equivalents - End of Year	<u>\$ 2,377,077</u>	<u>\$ 7,669,831</u>

The accompanying notes are an integral part of the consolidated financial statements

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Community Solutions International, Inc. and Subsidiaries, d/b/a Community Solutions, Inc. (CSI) is a not-for-profit organization with the primary mission to strengthen communities to end homelessness by building partnerships, sharing innovations and connecting vulnerable people to homes and support.

CS North Capitol Commons LLC (CSNCC) with CSI as the sole member holds a noncontrolling, 51% interest in North Capitol Commons GP, LLC, which holds a .009% interest in North Capitol Commons LP (North Capitol Project). The consolidated financial statements reflect the activity of CSNCC; however, the North Capitol Project does not meet the requirements for consolidation. See Note 12 for further discussion regarding the North Capitol Project.

Community Solutions 519 Rockaway Ave, Inc. (CS Rockaway), a wholly owned subsidiary of CSI, consists of a 14,000-square-foot building and lot which houses the administrative offices of CSI and is a rental facility of space to tenants.

Swift Factory LLC (Swift) was organized with CSI as its sole member to hold title and participate in a redevelopment project at 10 and 60 Love Lane in Hartford. These properties were formerly held by a related party, Northeast Neighborhood Partners, Inc. (NNPI). During 2015, the properties were transferred to Swift by NNPI, and the redevelopment projects commenced. At the end of 2017, these properties were transferred back to NNPI as the redevelopment projects continue (see Note 12).

The consolidated financial statements as of December 31, 2017 and 2016, include the activities of CSI, CS Rockaway, CSNCC and Swift (collectively, the Organization).

Basis of Accounting and Presentation

The Organization prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Net assets, revenues and expenses are classified based on the existence or absence of donor-imposed restrictions.

Unrestricted Net Assets

Unrestricted net assets represent available resources other than donor-restricted contributions. These resources may be expended at the discretion of the Board of Directors.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent contributions that are restricted by the donor as to purpose or time of expenditure.

Permanently Restricted Net Assets

Permanently restricted net assets represent resources that have donor-imposed restrictions that require that the principal be maintained in perpetuity but permit the Organization to expend the income earned thereon. There are no permanently restricted net assets at December 31, 2017 and 2016.

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures in the consolidated financial statements. Actual results could differ from these estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with maturities of three months or less to be cash equivalents. The Organization maintains its cash and cash equivalents in bank deposit accounts that, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Restricted cash is limited in use to payment of costs related to North Capitol Project, which is further described in Note 12. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Property and Equipment

Property and equipment are recorded at cost. Major renewals and improvements in excess of \$5,000 are capitalized, while replacements, maintenance and repairs that do not extend the lives of the assets are charged directly to expense as incurred. Upon disposition or retirement of property and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gains and losses are included in the results of operations.

Depreciation is provided for using the straight-line method based on the estimated useful lives of the assets as follows:

Buildings and improvements	33.5 years
Furniture and fixtures	5 years
Computer equipment and software	3 years

Grants and Contracts

Governmental grants and contracts are generally considered to be exchange transactions rather than contributions. Revenue from cost-reimbursement grants and contracts is recognized to the extent of costs incurred. Revenue from performance-based grants and contracts is recognized to the extent of performance achieved. Grant and contract receipts in excess of revenue recognized are presented as deferred revenue.

Contributions

Unconditional contributions are recognized when pledged or received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Donated Services

The Organization recognizes donated services at their estimated fair value if they create or enhance nonfinancial assets or require specialized skills and would typically be purchased if not provided by donation. General volunteer services do not meet these criteria for recognition. Donated professional services in the amount of \$115,000 and \$79,538 as of December 31, 2017 and 2016, respectively, have been recognized as contribution revenue as well as management and general expense within the accompanying consolidated statements of activities in accordance with applicable accounting standards.

Income Taxes

CSI and CS Rockaway are exempt from federal and state income taxes as public charities under Section 501(c)(3) and (2) of the Internal Revenue Code, respectively. CSNCC and Swift are disregarded entities for federal and state income taxes and are included in the CSI tax return.

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform with the current year's presentation.

Subsequent Events

In preparing these consolidated financial statements, management has evaluated subsequent events through August 8, 2018, which represents the date the consolidated financial statements were available to be issued.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Building and improvements	\$ 4,276,909	\$ 4,259,416
Computers and equipment	14,800	14,800
Land	371,800	371,800
Construction in progress	-	2,003,613
	<u>4,663,509</u>	<u>6,649,629</u>
Less accumulated depreciation	<u>362,510</u>	<u>232,142</u>
Property and Equipment, Net	<u>\$ 4,300,999</u>	<u>\$ 6,417,487</u>

Depreciation expense was \$130,368 and \$126,439 for the years ended December 31, 2017 and 2016, respectively.

Construction in progress as of December 31, 2016 relates to environmental remediation costs incurred to date on the Swift properties. In conjunction with the transfer of these properties to NNPI, as noted in Note 12, construction in progress as of December 31, 2017 was also transferred to NNPI.

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable as of December 31, 2017 and 2016, are expected to be collected as follows:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 2,611,947	\$ 1,715,752
Receivable in one to five years	802,500	1,109,000
	<u>3,414,447</u>	<u>2,824,752</u>
Less discount to net present value	<u>37,400</u>	<u>57,193</u>
Net Contributions Receivable	<u>\$ 3,377,047</u>	<u>\$ 2,767,559</u>

Contributions receivable in more than one year are discounted at 2%. Management has determined that an allowance for uncollectible accounts for contributions receivable is not necessary as of December 31, 2017 and 2016. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions and historical information.

NOTE 4 - LOANS RECEIVABLE

Loans receivable at December 31, 2017 consisted of the following:

In August 2014, CSI entered into a loan agreement with North Capitol Commons LP, a related party, as a lender of \$9,120,000 (2 nd sponsor loan as discussed in Note 12). The loan became receivable once the North Capitol Project was completed in 2017. The loan bears interest at 0.50% annually and matures on August 28, 2059. Currently, only interest payments are being received.	\$ 9,120,000
In October 2014, CSI entered into a loan agreement with North Capitol Commons LP, a related party, as the lender of \$500,000. These funds were remitted from the Federal Home Loan Bank of Pittsburgh's Community Investment Department to CSI, who remitted the funds to the project. The loan became receivable once the North Capitol Project was completed in 2017. As of December 31, 2017, there was no formal repayment plan.	500,000
In August 2014, CSI entered into a loan agreement with North Capitol Commons LP, a related party, as a lender of \$150,000 (1 st sponsor loan as discussed in Note 12). The loan became receivable once the North Capitol Project was completed in 2017. The loan bears interest at the greater of the long-term Applicable Federal Rate, or 3.09% annually, and matures on August 28, 2064. Currently, only interest payments are being received.	<u>150,000</u>
Total Loans Receivable	<u>\$ 9,770,000</u>

Interest income recognized on the loans receivable totaled \$46,131 for the year ended December 31, 2017.

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - LINE OF CREDIT

On March 17, 2017, CSI entered into a loan commitment with Boston Community Loan Fund, Inc. (BCLF) for a working capital line of credit up to \$500,000. The line of credit bears interest at a rate of 5%. The outstanding balance as of December 31, 2017 was \$321,250, which includes unamortized loan closing costs of \$3,750. BCLF requires CSI to comply with certain financial covenants, of which they were in compliance as of December 31, 2017.

NOTE 6 - LOANS PAYABLE

Loans payable at December 31, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
On August 12, 2014, CS Rockaway entered into a loan agreement with the Low Income Investment Fund (LIIF) to assist in the acquisition and renovation of 519 Rockaway Avenue. CS Rockaway may draw down funds on this loan up to \$1,320,000. The loan bears interest at 5.75% and is secured by the building. CS Rockaway only paid interest on this loan during 2015, and upon completion of the building renovations in 2016, principal repayments commenced. Principal is paid annually in the amount of \$124,000. Interest continues to be paid monthly. In conjunction with this loan, CS Rockaway is required to maintain a replacement reserve and an operating reserve.	\$ 1,072,000	\$ 1,196,000
In conjunction with the transfer of property from NNPI to Swift in 2016, as noted in Note 12, NNPI transferred to Swift a loan sourced from the Connecticut Department of Economic and Community Development for the purpose of environmental work, stabilization work, roof repairs and other needed expenditures to redevelop the property. Swift may draw down funds on this loan up to \$1,000,000. The loan bears interest at 1% and is collateralized by the assignment of leases, rents and permits from Swift to NNPI. Swift is currently paying interest on this loan, and upon completion of redevelopment, principal repayments will commence. As described in Note 12, this property and the related loan were transferred back to NNPI in 2017. Unamortized loan closing costs as of December 31, 2016 were \$4,500.	-	861,521
	<u>1,072,000</u>	<u>2,057,521</u>
Less unamortized loan closing costs	-	4,500
Loans Payable, Net	<u>\$ 1,072,000</u>	<u>\$ 2,053,021</u>

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Loan closing costs are legal fees and other costs incurred in obtaining financing that are amortized on a straight-line basis over the term of the related debt. Loan closing costs are presented as a direct deduction of the carrying amount of the debt. Amortization of the loan closing costs is included in interest expense.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes or future periods as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Purpose restrictions:		
Inspiring Places	\$ 1,734,164	\$ 212,254
Brownsville Partnership	1,669,875	1,991,944
Real estate projects	1,070,412	5,179,343
Hartford Community Partnership	266,250	133,324
Fiscal sponsorships	117,995	24,981
Built for Zero	86,695	1,516,869
Time restrictions	<u>325,100</u>	<u>326,138</u>
Total Temporarily Restricted Net Assets	<u>\$ 5,270,491</u>	<u>\$ 9,384,853</u>

NOTE 8 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions by satisfying the following time and purpose restrictions during the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Purpose restrictions:		
Real estate projects	\$ 4,793,931	\$ 372,527
Built for Zero	1,537,518	2,055,214
Brownsville Partnership	843,069	966,797
Inspiring Places	820,734	582,613
Hartford Community Partnership	264,583	468,917
Fiscal sponsorships	217,671	87,768
Knowledge Sharing	-	8,000
Time restrictions	<u>621,667</u>	<u>986,000</u>
Total Net Assets Released from Restrictions	<u>\$ 9,099,173</u>	<u>\$ 5,527,836</u>

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - EMPLOYEE BENEFIT PLAN

The Organization maintains a defined contribution retirement plan that is available to all full-time employees who have attained age 21. The plan provides for voluntary employee contributions, and the Organization may elect to match 100% of employee contributions up to 3% of their gross salary after a minimum of 1 year of service. Organization contributions totaled \$123,260 and \$90,839 as of December 31, 2017 and 2016, respectively.

NOTE 10 - OPERATING LEASES

The Organization leases equipment and office spaces under multiple operating leases that run through June 2023. Rent expense for these leases amounted to \$281,764 and \$255,759 for the years ended December 31, 2017 and 2016, respectively.

In June 2013, the Organization entered into an operating lease for new office space that expires in June 2023. The lease requires escalating monthly payments ranging from \$15,664 to \$20,433 over the term of the lease. The Organization recognizes rent expensed on a straight-line basis over the respective lease term of the underlying agreement. Rent expense under this method was \$217,031 for the years ended December 31, 2017 and 2016.

Future minimum lease payments under leases extending beyond one year from the statement of financial position date are as follows:

Year Ending December 31

2018	\$	221,185
2019		226,646
2020		232,269
2021		238,033
2022		243,940
Thereafter		<u>123,465</u>
Total	\$	<u>1,285,538</u>

NOTE 11 - LEASE INCOME

In March 2015, the Organization entered into an agreement as the lessor with a nonprofit organization to lease space at their 519 Rockaway Avenue location for a term of two years. The lease calls for annual rent payments of \$74,790 for the first year and \$77,034 for the second year. The Organization recognizes rent income on a straight-line basis over the respective lease term of the underlying agreement. Rent income under this method was \$12,839 and \$75,912 for the years ended December 31, 2017 and 2016, respectively. In March 2017, the Organization entered into another lease agreement with this nonprofit for additional space in the building for a term of one year. Lease income for this space totaled \$66,310 for the year ended December 31, 2017.

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Organization also entered into an agreement as the lessor with a nonprofit organization to lease space at their 519 Rockaway Avenue location for a term expiring in February 2025. The lease requires escalating monthly payments ranging from \$8,079 to \$10,541 over the term of the lease. The Organization recognizes rent income on a straight-line basis over the respective lease term of the underlying agreement. Rent income under this method was \$111,142 for the years ended December 31, 2017 and 2016.

In September 2017, the Organization entered into an agreement as the lessor with a nonprofit organization to lease work space at 519 Rockaway Avenue for a term expiring in December 2018. The lease requires escalating monthly payments ranging from \$500 to \$750 over the term of the lease. The Organization recognizes rent income on a straight-line basis over the respective lease term of the underlying agreement. Rent income under this method was \$2,750 for the year ended December 31, 2017.

Future annual lease income in subsequent years is as follows:

Year Ending December 31

2018	\$	127,688
2019		108,588
2020		111,846
2021		115,201
2022		118,657
Thereafter		<u>269,184</u>
Total	\$	<u>851,164</u>

NOTE 12 - RELATED PARTY TRANSACTIONS

Northeast Neighborhood Partners, Inc. (NNPI)

During the years ended December 31, 2017 and 2016, the Organization paid expenses for Northeast Neighborhood Partners Inc. (NNPI) from advance payments received by CSI for NNPI. In addition, certain employees of CSI performed work for NNPI throughout the year. The portion of the employees' salaries allocated to the work performed is charged to NNPI throughout the year. Amounts due to CSI from NNPI related to these transactions were \$403,211 and \$471,842 as of December 31, 2017 and 2016, respectively. Lastly, the President of the Organization is the Secretary of the Board of Directors of NNPI as of December 31, 2017 and 2016.

In August 2014, CSI approved a loan of \$200,000 to NNPI for the operation and maintenance of NNPI's 370 Asylum property. In October 2016, CSI advanced the remaining available balance of \$125,000 under this loan, as well as an additional advance of \$50,000. An additional \$25,000 was advanced to NNPI by CSI in 2017. NNPI paid off the cumulative balance of all loans totaling \$395,000 to CSI during the year ended December 31, 2017. The total loan balance outstanding as of December 31, 2016 was \$370,000. There was no outstanding loan balance as of December 31, 2017.

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In 2015, NNPI transferred property located at 10 and 60 Love Lane in Hartford, Connecticut, with a book value of \$1,208,521, to Swift. In December 2017, these properties were transferred from Swift to CSI, and then from CSI to NNPI. The transfer totaled \$3,567,994, including the properties with a book value of \$2,003,613, and existing assets and liabilities related to these properties in the amount of \$1,443,933. This resulted in a loss of \$559,680 which is recognized on the consolidated statements of activities as of December 31, 2017.

Community Solutions 519 Rockaway Avenue, Inc. (CS Rockaway)

During the year ended December 31, 2015, CSI entered into a lease agreement with CS Rockaway for one year. This lease will automatically extend for up to 20 successive 1-year periods unless terminated by either party with 30 days' written notice. Rental income and expense of \$153,950 was eliminated within the consolidated statement of activities for the years ended December 31, 2017 and 2016, respectively, related to this transaction.

North Capitol Project

The North Capitol Project (Project) is a Washington, D.C., residential project consisting of a new building with a total of 124 low-income housing tax unit apartments for use by veterans of the U.S. military. The Project, with a total cost of approximately \$32,650,000, was funded by the issuance of short-term tax-exempt bonds, equity investments, other federal and local government funding, and two sponsor loans from CSI in the aggregate amount of \$9,270,000, more fully described below. The Project was completed and placed in service during the year ended December 31, 2017.

In 2014, CSNCC as co-managing member, along with an unrelated party, of North Capitol Commons GP LLC, the GP of North Capitol Commons, LP, entered into a series of agreements related to the Project as follows:

- North Capitol Commons LP Amended and Restated Agreement of Limited Partnership
- North Capitol Commons GP LLC Initial Operating Agreement and Amended and Restated Agreement
- Purchase Option and Right of First Refusal Agreement
- Deed of Trust, Security Agreement and Assignment of Leases and Rents

On August 28, 2014, CSI entered into two loan agreements in the amount of \$150,000 (1st Sponsor loan) and \$9,120,000 (2nd Sponsor loan) to provide permanent loan proceeds of \$9,270,000 to assist in funding the Project. All loan proceeds were drawn down by the project and are recorded on the statement of financial position as loans receivable as of December 31, 2017.

To date, CSI has secured \$4,000,000 of private and corporate contributions, \$4,080,000 of Department of General Services (DGS) funds and \$1,190,000 from the Department of Housing and Community Development (DHCD). During the year ended December 31, 2017, the private and corporate contributions of \$4,000,000 were released from temporarily restricted net assets, upon completion of the Project. DGS funds in the amount of \$4,080,000 have been received by CSI and remitted to the Project as of December 31, 2016. As of December 31, 2017, \$1,190,000 from the DHCD funds were drawn and remitted to the Project.

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In October 2014, CSI entered into a loan agreement in the amount of \$500,000 to provide additional loan proceeds to assist in funding the Project. CSI received and remitted the \$500,000 from Federal Home Loan Bank of Pittsburgh's Community Investment Department to the Project during the year ended December 31, 2017. This balance is recorded on the statement of financial position as loans receivable as of December 31, 2017.

As of December 31, 2017, CSI transferred funding in the amount of \$9,770,000 to the Project in accordance with the private and public donor stipulations. Temporarily restricted contributions received for the Project were released upon the Project being placed in service.

The 2nd Sponsor loan provides that CSI enter into pledge and assignment agreement assigning Chase Bank, Trustee for the short-term tax-exempt bonds funding of the Project, a security interest in certain funds and agreeing to certain conditions for the release of the funds. Such funds, in the amount of \$8,651 and \$4,169,118, are recorded as restricted cash on the consolidated statements of financial position as of December 31, 2017 and 2016, respectively.

The Project is the recipient of a \$7,000,000 HOME loan from DHCD. During 2016, CSI received \$3,450,996 from DHCD and remitted a total of \$1,940,827 to the Project. As a result, as of December 31, 2016, the receipts from DHCD exceeded the remissions to the Project by \$1,065,269. This balance is included within restricted cash on the consolidated statement of financial position as of December 31, 2016. During 2017, CSI received the balance of this loan and has remitted all funds to the Project as of December 31, 2017.

CSI, along with an unrelated entity, are co-developers of the Project. As such, CSI is entitled to a developer fee of \$1,290,000, payable in four installments as follows: \$276,235 was paid at initial closing, \$300,000 was paid upon receipt of a grant from the Federal Home Loan Bank of Pittsburgh under the Affordable Housing Program, \$386,234 will be paid upon satisfaction of the conditions to the payment of the Limited Partner of its Third Capital Contribution, \$15,361 will be paid upon satisfaction of the conditions to the payment of the Limited Partner of its Fourth Capital Contribution, and the last payment of \$312,170 will be paid upon satisfaction of the conditions to the payment of the Limited Partner of its Fifth Capital Contribution, of which \$237,531 is anticipated to be deferred and payable out of net cash flow pursuant to the partnership agreement. During the year ended December 31, 2016, CSI recognized \$200,000 of such developer fees, which are recorded as development and management fees on the statements of activities. There were no developer fees recognized for the year ended December 31, 2017. Since inception of the Project, CSI has recognized \$776,235 of developer fees under this agreement.

On August 28, 2014, CSI entered into a Purchase Option and Right of First Refusal Agreement with North Capitol Commons LP and other unrelated parties.

Grant of Option

North Capitol Commons LP grants to CSI an option to purchase the real estate, fixtures and personal property comprising the Project or associated with the physical operations thereof, owned by North Capitol Commons LP at the time of purchase, after the close of the 15-year compliance period for the low-income housing tax credit for the Project (the Compliance Period), on the terms and conditions set forth in the agreement.

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Grant of Refusal Right

In the event that North Capitol Commons LP receives a bona fide offer to purchase the Project, CSI shall have a right of first refusal to purchase the Property (the Refusal Right) after the close of the Compliance Period, on the terms and conditions set forth in the agreement.

On August 28, 2014, CSI entered into a Leasehold Deed of Trust, Security Agreement and Assignment of Leases and Rents with North Capitol Commons LP. Under the terms of said agreement, North Capitol Commons LP (the Borrower) irrevocably conveyed its right, title and interest in the leases of said property to CSI as collateral for the guaranteed performance by North Capitol Commons LP.

NOTE 13 - NONCASH ACTIVITIES

As disclosed in Note 12, property was transferred from CSI to NNPI during the year ended December 31, 2017. This resulted in a reduction of property and equipment of \$2,003,613 and a reduction in loans payable of \$1,564,381. No transactions of this nature occurred during the year ended December 31, 2016.

NOTE 14 - SUBSEQUENT EVENTS

In February 2018, CS Abrigo Management LLC was incorporated as a wholly owned subsidiary of CSI. Additionally, in February 2018, CSI became 10% owner of Vesta CO LLC. Both transactions are for the purpose of a new housing project in Colorado.